CHINA YURUN FOOD GROUP LIMITED
中國雨潤食品集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1068)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board of directors (the "Board") of China Yurun Food Group Limited (the "Company" or "Yurun Food") announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2016 (the "Review Period"). The interim financial report for the Review Period is unaudited, but the results have been reviewed by the Company's Audit Committee.

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2016 – unaudited

	Note	Six months ended 30 June 2016 HK$'000	2015 HK$'000
Revenue	3	**8,986,883**	9,583,710
Cost of sales		**(8,628,547)**	(9,328,376)
Gross profit		**358,336**	255,334
Other net (loss)/income	4	**(62,976)**	50,478
Distribution expenses		**(320,861)**	(365,860)
Administrative and other operating expenses		**(440,907)**	(515,123)
Results from operating activities		**(466,408)**	(575,171)
Finance income		**1,018**	11,481
Finance costs		**(198,917)**	(153,343)
Net finance costs	5(a)	**(197,899)**	(141,862)
Share of loss of a joint venture (net of income tax)		**–**	(660)
Loss before income tax	5	**(664,307)**	(717,693)
Income tax expense	6	**(7,843)**	(6,553)
Loss for the period		**(672,150)**	(724,246)
Attributable to:			
Equity holders of the Company		**(672,458)**	(723,991)
Non-controlling interests		**308**	(255)
Loss for the period		**(672,150)**	(724,246)
Loss per share			
Basic	7(a)	**HK$(0.369)**	HK$(0.397)
Diluted	7(b)	**HK$(0.369)**	HK$(0.397)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2016 – unaudited

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Loss for the period	**(672,150)**	(724,246)
Other comprehensive income for the period (after reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	**(192,123)**	2,841
Foreign currency translation differences reclassified to profit or loss upon disposal of a subsidiary and a joint venture	**(157)**	(1,776)
	(192,280)	1,065
Total comprehensive income for the period	**(864,430)**	(723,181)
Attributable to:		
Equity holders of the Company	**(864,074)**	(722,944)
Non-controlling interests	**(356)**	(237)
Total comprehensive income for the period	**(864,430)**	(723,181)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2016 – unaudited

	Note	30 June 2016 HK$'000	31 December 2015 HK$'000
Non-current assets			
Property, plant and equipment		**14,252,579**	14,656,216
Investment properties		**206,294**	–
Lease prepayments		**3,046,379**	2,988,918
Goodwill		**88,981**	90,776
Intangible assets		**31,292**	36,484
Non-current prepayments and receivables		**186,712**	214,859
Deferred tax assets		**7,976**	11,014
		17,820,213	17,998,267
Current assets			
Inventories		**575,681**	885,300
Other investment		**983**	1,003
Current portion of lease prepayments		**73,567**	70,440
Trade and other receivables	8	**2,694,592**	3,134,274
Income tax recoverable		**2,577**	1,387
Restricted bank deposits		**44,133**	–
Pledged deposits		**4,489**	7,493
Time deposits		**21,320**	10,199
Cash and cash equivalents		**229,460**	401,011
Assets held for sale		**63,999**	–
		3,710,801	4,511,107
Current liabilities			
Bank and other loans		**6,673,302**	4,774,516
Short term financing notes		**–**	596,801
Medium term notes		**–**	1,192,305
Finance lease liabilities		**497**	542
Trade and other payables	9	**2,745,628**	2,684,164
Income tax payable		**5,543**	4,553
		9,424,970	9,252,881
Net current liabilities		**(5,714,169)**	(4,741,774)
Total assets less current liabilities		**12,106,044**	13,256,493
Non-current liabilities			
Bank loans		**464,296**	756,021
Finance lease liabilities		**134,835**	137,791
Deferred tax liabilities		**33,445**	31,051
		632,576	924,863
NET ASSETS		**11,473,468**	12,331,630
EQUITY			
Share capital		**182,276**	182,276
Reserves		**11,240,459**	12,098,265
Total equity attributable to equity holders of the Company		**11,422,735**	12,280,541
Non-controlling interests		**50,733**	51,089
TOTAL EQUITY		**11,473,468**	12,331,630

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2016 – unaudited

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Cash used in operations	**(139,508)**	(47,990)
Tax paid	**(4,344)**	(13,026)
Net cash used in operating activities	**(143,852)**	(61,016)
Net cash generated from/(used in) investing activities	**13,760**	(255,538)
Net cash (used in)/generated from financing activities	**(39,064)**	331,969
Net (decrease)/increase in cash and cash equivalents	**(169,156)**	15,415
Cash and cash equivalents at 1 January	**401,011**	885,028
Effect of exchange rate fluctuations on cash held	**(2,395)**	298
Cash and cash equivalents at 30 June	**229,460**	900,741

NOTES:

1 BASIS OF PREPARATION

The interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 26 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of these changes in accounting policies are set out in note 2.

During the six months ended 30 June 2016, the Group recorded a net loss of HK$672,150,000 (six months ended 30 June 2015: HK$724,246,000) and operating cash outflow of HK$143,852,000 (six months ended 30 June 2015: HK$61,016,000) for the six months ended 30 June 2016. As at 30 June 2016, the Group had net current liabilities of HK$5,714,169,000 (31 December 2015: HK$4,741,774,000). Its total bank and other loans and finance lease liabilities amounted to HK$7,272,930,000 (31 December 2015: total bank loans, short term financing notes, medium term notes and finance lease liabilities of HK$7,457,976,000), out of which HK$6,673,799,000 (31 December 2015: HK$6,564,164,000) is due within 12 months of that date. The Group incurred gross interest expenses before interest capitalisation of HK$185,752,000 (six months ended 30 June 2015: HK$256,472,000) for the six months ended 30 June 2016. As further detailed in note 5, as at 30 June 2016, the Group could not fulfil covenants imposed by banks of certain bank loans of an aggregate amount of HK$3,128,465,000 (31 December 2015: HK$2,200,752,000), of which repayments of HK$361,615,000 (31 December 2015: HK$104,458,000) were due on or before 30 June 2016. Certain subsidiaries of the Group are also party to various litigations as mentioned in note 12. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The directors of the Company (the "Directors") have taken the following measures to mitigate the liquidity pressure and to improve its financial position:

(i) Actively negotiating with banks to renew bank loans that have fallen due;

(ii) Implementing comprehensive policies to monitor cash flows through cutting costs and capital expenditure;

(iii) Taking active measures to expedite collections of outstanding receivables;

(iv) Seeking potential strategic investors; and

(v) Looking for buyers for certain non-core assets.

Taking into account the Group's cash flow projections covering a period of twelve months from the end of the reporting period prepared by management, and assuming the success of the above measures, the Directors consider the Group would be able to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any future liabilities that may arise and to re-classify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in these consolidated financial statements.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to International Financial Reporting Standards ("IFRSs") that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group.

- *Annual Improvements to IFRSs 2012-2014 Cycle*
- Amendments to IAS 1, *Presentation of financial statements: Disclosure initiative*
- Amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets – Clarification of acceptable methods of depreciation and amortisation*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

In addition, accounting policies that are adopted by the Group in 2016 are set out below:

Assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets, or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

3 REVENUE AND SEGMENT INFORMATION

(a) Segment results

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2016 and 2015 is set out below.

	Chilled and frozen meat Six months ended 30 June		Processed meat products Six months ended 30 June		Total Six months ended 30 June	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
External revenue	**7,881,282**	8,288,353	**1,105,601**	1,295,357	**8,986,883**	9,583,710
Inter-segment revenue	**59,960**	182,111	**3,000**	16,636	**62,960**	198,747
Reportable segment revenue	**7,941,242**	8,470,464	**1,108,601**	1,311,993	**9,049,843**	9,782,457
Depreciation and amortisation	**(195,897)**	(205,331)	**(53,469)**	(65,890)	**(249,366)**	(271,221)
Impairment losses on property, plant and equipment	**(37,617)**	–	**–**	–	**(37,617)**	–
Impairment losses on assets held for sale	**(71,986)**	–	**–**	–	**(71,986)**	–
(Provision for)/reversal of impairment losses on trade and other receivables	**(9,578)**	276	**(7,535)**	(15,162)	**(17,113)**	(14,886)
Government subsidies	**1,479**	44,642	**7,047**	24,995	**8,526**	69,637
Reportable segment loss	**(377,614)**	(428,828)	**(55,676)**	(81,897)	**(433,290)**	(510,725)
Income tax expense	**(74)**	(1,302)	**(5,311)**	(4,932)	**(5,385)**	(6,234)

Segment assets and liabilities of the Group are not reported to the Group's most senior executive management regularly. As a result, reportable segment assets and liabilities have not been presented in the interim financial report.

(b) Reconciliations of reportable segment revenue and loss

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Revenue		
Total revenue from reportable segments	**9,049,843**	9,782,457
Elimination of inter-segment revenue	**(62,960)**	(198,747)
Consolidated revenue	**8,986,883**	9,583,710
Loss		
Reportable segment loss	**(433,290)**	(510,725)
Elimination of inter-segment (loss)/profits	**(613)**	4,165
Reportable segment loss derived from Group's external customers	**(433,903)**	(506,560)
Share of loss of a joint venture	**–**	(660)
Loss on disposal of a joint venture	**–**	(2,086)
Loss on disposal of a subsidiary	**(1,189)**	(12,047)
Impairment losses on receivables arising from the disposal of a subsidiary	**(25,090)**	–
Net finance costs	**(197,899)**	(141,862)
Unallocated head office and corporate expenses	**(6,226)**	(54,478)
Consolidated loss before income tax for the period	**(664,307)**	(717,693)

4 OTHER NET (LOSS)/INCOME

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Government subsidies	**9,246**	70,446
Loss on disposal of a joint venture	**–**	(2,086)
Loss on disposal of a subsidiary *(note)*	**(1,189)**	(12,047)
Loss on disposal of lease prepayment and property, plant and equipment	**(3,482)**	(55,248)
Impairment losses on receivables arising from the disposal of a subsidiary	**(25,090)**	–
Impairment losses on assets held for sale *(note 11)*	**(71,986)**	–
Rental income	**20,854**	17,920
Sales of scrap	**1,126**	175
Sundry income	**7,545**	31,318
	(62,976)	50,478

Note: In March 2016, the Group disposed of its entire equity interest in its wholly owned subsidiary in chilled and frozen meat segment to a third party, of which net assets disposed amounted to HK$12,668,000. The cash consideration amounting to Renminbi ("RMB") 9,529,000 (approximately HK$11,395,000) has been settled before 30 June 2016. A loss on disposal of a subsidiary amounting to HK$1,189,000 was recognised in profit or loss during the six months ended 30 June 2016.

5 LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

(a) Net finance costs

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Interest on bank and other loans, short term financing notes and medium term notes	**183,239**	253,783
Interest on lease obligations	**2,513**	2,689
Less: Interest expense capitalised into property, plant and equipment under development	**(8,196)**	(106,657)
	177,556	149,815
Bank charges	**493**	2,648
Net foreign exchange loss	**20,868**	880
Interest income from bank deposits	**(1,018)**	(7,047)
Investment income from available-for-sale financial assets	**–**	(4,434)
	197,899	141,862

Certain of the Group's bank loan facilities were subject to the fulfilment of covenants as are commonly found in lending arrangements with financial institutions. At 30 June 2016, the Group could not fulfil covenants imposed by banks on certain loans of an aggregate amount of HK$3,128,465,000 (31 December 2015: HK$2,200,752,000). Included in this amount are, (i) loans of an aggregate amount of HK$150,150,000 which were long-term loans and were re-classified as current liabilities in the consolidated statement of financial position; and (ii) an outstanding loan balance of HK$751,680,000 (31 December 2015: HK$291,456,000) of which instalment repayments of HK$361,615,000 (31 December 2015: HK$104,458,000) were due on or before 30 June 2016 but were not yet renewed or repaid at the end of the reporting period. The Group is in negotiating with banks to renew bank loans which have fallen due but are not yet renewed or repaid.

At 30 June 2016, there were outstanding litigations commenced by banks in the People's Republic of China (the "PRC") against certain subsidiaries of the Group requesting such subsidiaries to: (i) secure the repayment of outstanding bank loans of HK$176,074,000 with assets of equivalent amount; and (ii) repay the outstanding loans of HK$17,468,000 immediately. Certain assets of the Group with carrying value of HK$242,435,000 have been frozen by the court in the PRC as of 30 June 2016 which also included restricted bank deposits of HK$44,133,000. The Group is negotiating with the banks to settle these litigations.

(b) Other items

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Provision for impairment losses on trade and other receivables	**17,113**	14,886
Amortisation of lease prepayments	**36,379**	40,918
Amortisation of intangible assets	**4,539**	6,194
Depreciation	**212,243**	231,724
Impairment losses on property, plant and equipment *(note)*	**37,617**	34,163
Impairment losses on assets held for sale *(note 11)*	**71.986**	–

Note: During the six months ended 30 June 2016, the Group assessed the recoverable amounts of certain assets under construction in progress and impairment losses of HK$37,617,000 were recognised in "administrative and other operating expenses". The estimates of recoverable amount were based on these assets' fair values less costs of disposal, using depreciated replacement cost approach. Depreciated replacement cost reflects adjustments for percentage of completion, physical deterioration as well as economic obsolescence. Economic obsolescence has to be taken into consideration future economic benefits to be generated by the assets. As such, cash flow projection is used in the determination of economic obsolescence. The fair values on which recoverable amounts are based are categorised as a Level 3 measurement under the fair value hierarchy.

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Current tax expense	**4,024**	8,559
Deferred tax expense/(credit)	**3,819**	(2,006)
	7,843	6,553

(a) Pursuant to the rules and regulations of Bermuda and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in Bermuda and the BVI.

(b) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2016 and 2015.

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC corporate income tax at a rate of 25% during the six months ended 30 June 2016 and 2015, except for the enterprises engaged in the primary processing of agricultural products which are exempted from PRC corporate income tax. As a result, the profits from slaughtering operations are exempted from PRC corporate income tax for the six months ended 30 June 2016 and 2015.

(d) Under the PRC tax law, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered as a PRC resident enterprise and subject to PRC corporate income tax on their global income at the rate of 25%. The Group may be deemed to be a PRC resident enterprise and subject to PRC corporate income tax at 25% on its global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise would be tax exempted, but there is no guarantee that the Group will qualify for this exemption.

(e) The Group's consolidated effective tax rate for the six months ended 30 June 2016 was -1.2% (six months ended 30 June 2015: -0.9%).

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK$672,458,000 (six months ended 30 June 2015: a loss of HK$723,991,000) and the weighted average number of ordinary shares of 1,822,756,000 (six months ended 30 June 2015: 1,822,756,000).

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share for the six months ended 30 June 2016 and 2015 because all potential ordinary shares outstanding were anti-dilutive.

8 TRADE AND OTHER RECEIVABLES

An ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) of the Group based on invoice date and a breakdown of trade and other receivables as at the end of the reporting period are analysed as follows:

	30 June 2016 *HK$'000*	31 December 2015 *HK$'000*
Trade receivables		
– Within 30 days	**238,529**	341,309
– 31 days to 90 days	**138,020**	139,861
– 91 days to 180 days	**50,918**	48,599
– Over 180 days	**81,787**	57,732
	509,254	587,501
Less: Provision for impairment of trade receivables	**(39,740)**	(25,829)
Total trade receivables, net of impairment losses	**469,514**	561,672
Bills receivable	**608**	21,724
Value-added tax ("VAT") recoverable	**1,979,135**	1,951,077
Deposits and prepayments	**158,201**	116,710
Receivables arising from the disposal of subsidiaries *(note)*	**–**	388,990
Others	**87,134**	94,101
	2,694,592	3,134,274

Note: In December 2014, the Group disposed of its entire equity interest of a wholly owned subsidiary in chilled and frozen meat segment to Nanjing Runlong Business Investment Management Limited ("Nanjing Runlong")* 南京潤隆商業投資管理有限公司, which is indirectly owned as to 29% by Mr. Zhu Yicai, a beneficial shareholder of the Company, and directly owned as to 71% by an independent third party, at a total consideration of HK$682,686,000.

Nanjing Runlong was unable to fully settle the consideration. The transaction was terminated and the transfer of the equity of the former subsidiary back to the Group was completed in March 2016.

All of the other trade and other receivables are expected to be recovered within one year.

* *The English translation of the company name is for reference only. The official name of this company is in Chinese.*

9 TRADE AND OTHER PAYABLES

An ageing analysis of trade payables based on invoice date and a breakdown of trade and other payables (including amounts due to related parties) as at the end of the reporting period are analysed as follows:

	30 June 2016 *HK$'000*	31 December 2015 *HK$'000*
Trade payables		
– Within 30 days	**546,087**	690,771
– 31 days to 90 days	**104,380**	95,153
– 91 days to 180 days	**55,684**	57,131
– Over 180 days	**120,924**	117,223
Total trade payables	**827,075**	960,278
Receipts in advance	**198,954**	260,285
Deposits from customers	**117,591**	118,375
Salary and welfare payables	**103,567**	82,543
VAT payable	**8,676**	4,239
Payables for acquisitions of property, plant and equipment	**617,908**	503,671
Other payables and accruals	**871,857**	754,773
	2,745,628	2,684,164

10 DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: HK$Nil).

11 ASSETS HELD FOR SALE

In June 2016, management is committed to a plan to dispose of the non-current assets of a wholly owned subsidiary in chilled and frozen meat segment to a third party. Those assets are expected to be disposed within twelve months after the end of the reporting period.

Accordingly, the assets to be disposed were classified as assets held for sale and measured at the lower of their carrying amounts and the fair value less costs to sell.

Impairment losses of approximately HK$71,986,000 were charged on these assets for the six months ended 30 June 2016. The recoverable amount was determined based on the fair value less costs of disposal. The fair values on which the recoverable amounts are based on are categorised as a Level 3 measurement.

12 CONTINGENT LIABILITIES

In addition to the litigations commenced by banks against subsidiaries of the Group as discussed in note 5, there were outstanding litigations commenced by several constructors against certain subsidiaries of the Group claiming construction fee totalling approximately HK$208,279,000 (31 December 2015: HK$104,405,000). Based on the advice of the Group's in-house legal counsel, the Directors estimated the Group will likely be liable to pay HK$165,127,000 (31 December 2015: HK$70,317,000) for the settlement of the litigations. Provision of this amount had been provided and included in "trade and other payables".

There were outstanding litigations commenced by several government related entities against certain subsidiaries of the Group claiming certain assets with a total amount of approximately HK$316,783,000. Certain assets of the Group with carrying value of HK$40,497,000 have been frozen by the court in the PRC as of 30 June 2016. Based on the advice of the Group's in-house legal counsel, the Directors were of the opinion that it is not probable for the Group to be liable for such claims. The Board will continue to seek advice from the in-house legal counsel. No provision has therefore been made in respect of these claims as at 30 June 2016.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the Review Period (2015: HK$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview (and outlook)

During the Review Period, China's national economy performed stably with advancement. According to the data published by the National Bureau of Statistics of China, China's gross domestic product for the first half of this year was RMB34,063.7 billion, representing an increase of 6.7% as compared to the same period last year.

However, in the first half of this year, affected by factors such as tight market supply, hog prices rose rapidly and increased significantly by approximately 48% compared to the same period last year to approximately RMB21.4 per kilogram, being the highest price in the past 5 years. During the Review Period, pork production in China amounted to 24.73 million tons, representing a decrease of 3.9% over the same period last year. During the Review Period, the number of live hogs production of China was approximately 402 million heads, representing a decrease of 3.7% over the same period in 2015; the number of hogs output was approximately 320 million heads, representing a year on year decrease of 4.4% as compared to the same period last year. As the hog farmers' incentives to rebuild inventories resumed gradually and the supply should improve steadily, pork prices are therefore expected to decrease in the second half of 2016.

Facing all these enormous challenges, the Group will continue to make its best efforts to adopt a number of prudent actions to maintain the stability of its business.

Business Review

During the Review Period, pork prices rose rapidly and maintained at a high level. Certain consumers chose other meats as alternatives, which worsened the pork consumption. The Group experienced greater difficulty in transferring cost to consumers with rising production cost and sluggish market for high-end catering and meat consumption.

Despite all the unfavorable factors during the Review Period, the Group continued to adhere to its belief to provide quality meat products for consumers against the backdrop of the challenging market environment.

Product Quality and Research and Development

During the Review Period, under the leadership of the Group's management, Yurun Food adhered to its operation philosophy of "you trust because we care", took the lead in the industry development by technical research and development, and ensured product quality through advanced production process and technology. Yurun Food ranked top in terms of market shares of low temperature meat products ("LTMP") and chilled pork in China, and successively topped the LTMP and chilled pork market in China in terms of market shares for the consecutive eighteenth year and fourth year respectively in the Annual Conference of the Development of Consumer Markets and the Release of Product Sales Statistics of the China Market (中國消費市場發展年會暨商品銷售統計新聞發佈會) held in March 2016. The Group will continue to ensure high product quality, and focus on research and development of products which are well received by the market, so as to maintain its competitive advantages.

Sales and Distribution

Chilled pork and LTMP, which are the Group's products with higher added value, remained the focus of the overall business development of the Group during the Review Period. Sales of chilled pork of the Group was HK$7.233 billion (1H2015: HK$6.953 billion) during the Review Period, representing an increase of 4.0% over the same period last year, accounting for approximately 80% (1H2015: 71%) of the total revenue of the Group prior to inter-segment eliminations and approximately 91% (1H2015: 82%) of the total revenue of the upstream slaughtering segment. Sales of LTMP was HK$1.002 billion (1H2015: HK$1.201 billion), representing a decrease of 16.6% over the same period last year, accounting for approximately 11% (1H2015: 12%) of the total revenue of the Group prior to inter-segment eliminations and approximately 90% (1H2015: 92%) of the total revenue of the downstream processed meat segment.

Production Facilities and Production Capacity

Adhering to the strict cost control on investment, the Group adjusted its expansion pace according to the market changes and business conditions of the Group.

During the Review Period, no new plant of the Group commenced production. As at 30 June 2016, upstream slaughtering capacity was 56.35 million heads per year and the production capacity of downstream processed meat segment was approximately 312,000 tons per year, which remains unchanged as compared with that as at 31 December 2015.

Financial Review

The Board and the management assessed the development, performance or position of the business of the Group according to the following key performance indicators.

During the Review Period, the Group recorded a revenue of HK$8.987 billion, representing a decrease of 6.2% from HK$9.584 billion of the same period last year. However, during the Review Period, loss attributable to equity holders was HK$672 million (1H2015: HK$724 million), reducing by 7.1% compared with the same period last year. Diluted loss per share was HK$0.369 (1H2015: HK$0.397).

Revenue

Chilled and Frozen Pork

During the Review Period, the slaughtering volume of the Group was approximately 3.42 million heads, representing a decrease of approximately 32.1% over the same period last year, mainly because the Group positioned improvements in profitability as its objective and made appropriate compromise to the slaughtering volume in light of the significant increase in hog prices and decrease in overall pork consumption in China. Total sales derived from upstream business (before inter-segment eliminations) decreased by 6.2% to HK$7.941 billion (1H2015: HK$8.470 billion) as compared with the same period last year of which, sales of chilled pork increased by 4.0% to HK$7.233 billion (1H2015: HK$6.953 billion) as compared with the same period last year, accounting for approximately 80% (1H2015: 71%) and approximately 91% (1H2015: 82%) of the total revenue (before inter-segment eliminations) of the Group and the total revenue of the upstream business of the Group respectively. Sales of frozen pork decreased by 53.3% to HK$708 million (1H2015: HK$1.517 billion) as compared with the same period last year, accounting for approximately 9% (1H2015: 18%) of the total revenue of the upstream business.

Processed Meat Products

During the Review Period, sales of processed meat products (before inter-segment eliminations) of the Group was HK$1.109 billion (1H2015: HK$1.312 billion), representing a decrease of 15.5% over the same period last year.

Specifically, revenue of LTMP was HK$1.002 billion, representing a decrease of 16.6% as compared with HK$1.201 billion of the same period last year, accounting for approximately 90% (1H2015: 92%) of the processed meat segment. LTMP remained the key revenue driver to the processed meat business. Revenue of high temperature meat products ("HTMP") was HK$107 million (1H2015: HK$111 million), accounting for approximately 10% (1H2015: 8%) of the total revenue of the processed meat segment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 40.3% from HK$255 million in the first half of 2015 to HK$358 million during the Review Period. Overall gross profit margin increased by 1.3 percentage points to 4.0% from 2.7% of the same period last year. During the Review Period, production costs of the Group increased along with the significant rising pork price. The Group therefore adjusted sales channels where appropriate, set increasing profits as the goal and reduced sales to the relatively low-margin channel.

In respect of the upstream business, gross profit margin of chilled pork and frozen pork were 1.8% and -0.1% respectively (1H2015: 3.8% and -13.6% respectively). Increase in hog price improved the gross profit margin of frozen pork significantly. The overall gross profit margin of the upstream segment was 1.6%, representing an increase of 0.9 percentage point from 0.7% of the same period last year.

In respect of the downstream processed meat products, gross profit margin of LTMP was 19.3%, representing an increase of 4.5 percentage points from 14.8% of the same period last year. Since the Group adjusted the product mix of HTMP and purchased certain raw materials at a lower price in the second half of 2015 that lowered the production cost, gross profit margin of HTMP significantly increased by 21.1 percentage points from 13.7% over the same period last year to 34.8%. The overall gross profit margin of the downstream segment was 20.8%, representing an increase of 6.1 percentage points from 14.7% of the same period last year.

Other Net Loss

During the Review Period, other net loss of the Group was HK$62.98 million (1H2015: other net income of HK$50.48 million). Other net loss during the Review Period was mainly attributable to non-recurring losses including impairment losses on assets held for sale, impairment losses on receivables arising from disposal of a subsidiary, the loss on disposal of lease prepayment and property, plant and equipment, and significant decrease in government subsidies income.

Operating Expenses

Operating expenses included distribution expenses and administrative and other operating expenses. During the Review Period, operating expenses of the Group were HK$762 million, representing a decrease of 13.5% from HK$881 million of the same period last year. Such decrease was mainly due to the decrease in transportation costs in line with the decrease in sales volume. In addition, the Group cut certain positions to save costs and the staff salary and related staff costs thereby reduced. Other operating expenses including impairment losses on certain non-current assets of approximately HK$37.62 million during the Review Period (1H2015: HK$34.16 million). Operating expenses excluding impairment losses represented 8.1% of the Group's revenue, representing a decrease of 0.7 percentage point from 8.8% of the same period last year.

Results of Operating Activities

During the Review Period, operating loss of the Group was HK$466 million (1H2015: HK$575 million).

Finance Costs

During the Review Period, net finance costs of the Group were HK$198 million as compared with HK$142 million of the same period last year. Net finance costs increased mainly because of the decrease in interest expense capitalized into property, plant and equipment under development due to the slow-down of construction in progress, as well as exchange loss due to depreciation of RMB during the Review Period.

Income Tax

Income tax for the Review Period was HK$7.84 million, representing an increase of 19.7% as compared with HK$6.55 million of the same period last year, due to the increase in deferred tax expense during the Review Period.

Loss Attributable to the Equity Holders of the Company

Taking into account all of the above factors, loss attributable to the equity holders of the Company was HK$672 million during the Review Period (1H2015: HK$724 million), representing a decrease of 7.1% over the same period last year.

Financial Resources

As at 30 June 2016, the Group's cash balance including time deposits, pledged deposits and restricted bank deposits were HK$299 million, representing a decrease of HK$120 million from HK$419 million as at 31 December 2015. Approximately 76% (31 December 2015: 92%) was denominated in Hong Kong dollars or RMB and approximately 23% (31 December 2015: 7%) was denominated in United States dollars, remaining are in other currencies.

As at 30 June 2016, the Group had outstanding bank and other loans of HK$7.138 billion, representing a decrease of HK$182 million from HK$7.320 billion as at 31 December 2015 (balance at 31 December 2015 including the domestic medium term notes ("MTN") and the Short Term Financing Notes issued in China by Nanjing Yurun Food Co., Ltd ("Nanjing Yurun"), a wholly owned subsidiary of the Company), of which, HK$6.673 billion (31 December 2015: HK$4.775 billion of bank loans, HK$1.192 billion of the MTN and HK$597 million of the Short Term Financing Notes) were bank and other loans which are repayable within one year. The management expected the bank loans which are due within one year to be renewed upon maturity. All of the borrowings were denominated in RMB, which was consistent with the borrowings as at 31 December 2015. The fixed rate debt ratio of the Group was 60.9% as at 30 June 2016 (31 December 2015: 60.7%). During the Review Period, all the principal amount of the MTN and the Short Term Financing Notes issued by Nanjing Yurun together with its interests accrued were repaid in full.

Net cash outflow of the Group during the Review Period was mainly used for daily operations, payment for the construction payables for those projects already started and repayments of borrowings. The Group has adequate amount of unutilized credit facilities. The bank loans are expected to be renewed upon maturity and the Group has adequate funds for its daily operating activities and other funding requirements.

Under the principle of strict control over investment costs, the capital expenditure of the Group decreased significantly by 83.6% to HK$62.90 million during the Review Period from HK$383 million of the same period last year.

Assets and Liabilities

As at 30 June 2016, the total assets and total liabilities of the Group were HK$21.531 billion (31 December 2015: HK$22.509 billion) and HK$10.058 billion (31 December 2015: HK$10.178 billion) respectively, representing a decrease of HK$978 million and HK$120 million as compared with the total assets and liabilities as at 31 December 2015 respectively.

As at 30 June 2016, the property, plant and equipment of the Group amounted to HK$14.253 billion (31 December 2015: HK$14.656 billion), representing a slight decrease of 2.8% compared with that as at 31 December 2015.

Lease prepayments of the Group as at 30 June 2016 amounted to HK$3.120 billion (31 December 2015: HK$3.059 billion). This represented the purchase cost of land use rights which was amortized on a straight-line basis over the respective periods of the rights.

Non-current prepayments and receivables of the Group mainly represented the prepayments for acquisition of land use rights and property, plant and equipment and amounted to HK$187 million as at 30 June 2016 (31 December 2015: HK$215 million). These assets have not started to depreciate nor amortise yet.

The management of the Company is committed to a plan to dispose the non-current assets of a wholly owned subsidiary in the chilled and frozen meat segment to a third party (the "Disposal"). Those assets are expected to be disposed within twelve months after the end of the Review Period. No agreement has been entered into by the Group in relation to the Disposal as of the date of this announcement. Accordingly, the assets to be disposed were classified as assets held for sale. An impairment loss of approximately HK$71.99 million on these assets was charged for the Review Period. Further announcement(s) will be made by the Company in accordance with all applicable requirements of the Listing Rules as and when appropriate.

During the Review Period, the Group recorded a net loss of HK$672 million (1H2015: HK$724 million) and operating cash outflow of HK$144 million (1H2015: HK$61.02 million). As at 30 June 2016, the Group had net current liabilities of HK$5.714 billion (31 December 2015: HK$4.742 billion). The Directors believe that the current bank loans due within one year are expected to be renewed upon maturity. In addition, the Group will implement comprehensive policies to monitor cash flows through cutting costs and capital expenditure, proactively take measures to accelerate the collections of outstanding receivables, seek potential strategic investors and identify buyers for certain non-core assets to improve the cash flow. In view of these, the Directors believe that the Group will have sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the Review Period.

As at 30 June 2016, equity attributable to equity holders of the Company was HK$11.423 billion in total, representing a decrease of HK$858 million as compared with HK$12.281 billion as at 31 December 2015.

As at 30 June 2016, the gearing ratio (total debt represented by the sum of bank and other loans and finance lease liabilities divided by the sum of total debt and equity attributable to shareholders) of the Group was 38.9%, representing an increase of 1.1 percentage points as compared with 37.8% as at 31 December 2015. As at 30 June 2016, after excluding cash in bank, time deposits, pledged deposits and restricted bank deposits, the net gearing ratio was 37.3% (31 December 2015: 35.7%).

Charges on Assets

As at 30 June 2016, certain properties and construction in progress of the Group with a carrying amount of HK$1.999 billion (31 December 2015: HK$1.937 billion) and lease prepayments of the Group with a carrying amount of HK$1.183 billion (31 December 2015: HK$1.148 billion) were pledged against certain bank loans with a total amount of HK$3.558 billion (31 December 2015: HK$2.990 billion).

At 30 June 2016, no bank loans were secured by pledged deposits (31 December 2015: HK$3 million).

Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies, and Future Plans for Material Investment or Acquisition of Capital Assets

The Group did not hold any other significant investment nor make any material acquisition or disposal of subsidiaries during the Review Period. As at the date of this announcement, the Group has no plan to make any significant investment or acquisition of capital assets.

Contingent Liabilities

As at 30 June 2016, there were outstanding litigations commenced by banks in China against certain subsidiaries of the Group requesting such subsidiaries to: (i) secure the repayment of outstanding bank loans of HK$176 million or with assets of equivalent amount; and (ii) repay the outstanding loans of HK$17.47 million immediately. Certain assets of the Group with carrying amount of HK$242 million have been frozen by the court in China as of 30 June 2016, which also included restricted bank deposits of HK$44.13 million as disclosed in the Consolidated Statement of Financial Position. The Group is in the process of negotiating with the banks to settle these litigations.

There were outstanding litigations commenced by several contractors against certain subsidiaries of the Group claiming construction fee totaling approximately HK$208 million (31 December 2015: HK$104 million). Based on the advice of the Group's in-house legal counsel, the Directors estimated that the Group will likely be liable to pay HK$165 million (31 December 2015: HK$70 million) for the settlement of the litigations. As such, provision of this amount had been made.

There were outstanding litigations commenced by several government related entities against certain subsidiaries of the Group claiming certain assets with a total amount of approximately HK$317 million. Certain assets of the Group with carrying value of HK$40.50 million have been frozen by the court in China as of 30 June 2016. Based on the advice of the Group's in-house legal counsel, the Directors were of the opinion that it is not probable for the Group to be liable for such claims. The Board will continue to seek advice from the in-house legal counsel. No provision has therefore been made in respect of these claims as at 30 June 2016.

Further announcement(s) will be made by the Company in accordance with all applicable requirements of the Listing Rules as and when appropriate.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Other than purchases of certain equipment and materials and payment of certain professional fees in United States dollars, Euros or Hong Kong dollars, the Group's transactions were mainly settled in RMB. RMB is the functional currency of operating subsidiaries of the Group in China, and is not freely convertible into foreign currencies. The Group will monitor its exposure by considering factors including, but not limited to, exchange rate movement of the relevant foreign exchange currencies as well as the Group's cash flow requirements to ensure that its foreign exchange exposure is kept at an acceptable level.

Human Resources

As at 30 June 2016, the Group had approximately 13,000 (31 December 2015: approximately 16,000) employees in China and Hong Kong in total. During the Review Period, total staff cost was HK$326 million, accounting for 3.6% of the revenue (1H2015: HK$432 million, accounting for 4.5% of the revenue) of the Group.

The Group offered its employees competitive remuneration and other employee benefits, including contributions to social security schemes, such as retirement benefits scheme. In line with the industry and market practice, the Group also offered performance based bonus and a share option scheme to encourage and reward employees to contribute in terms of innovation and improvement. In addition, the Group allocated resources to provide continuing education and training to management and employees so as to improve their skills and knowledge.

Environmental Policies and Performance

As a responsible corporation, the Group is committed to promoting environmental protection and makes best effort to minimise the environmental impact of its existing production and business activities. During the Review Period, the Group implemented measures to reduce waste generated during its production process. In future, the Group aims at improving those measures to minimize waste and participating in conservation and sustainability initiatives as part of its long term environmental protection strategy.

CORPORATE GOVERNANCE

The Company adheres to corporate governance principles of integrity, transparency, openness and efficiency. It has strived to strictly observe and follow stringent corporate governance practice at all times through a comprehensive corporate governance structure and measures, so as to achieve a high standard of corporate governance and improve shareholders' value.

The Board currently comprises eight Directors. To facilitate effective management, the Board has delegated certain functions to various Board committees, including, the Audit Committee, the Remuneration Committee and the Nomination Committee. The Company has formulated specific terms of reference of each committee, covering its authority, responsibilities and functions. The major responsibilities of the Board and its committees include supervising the implementation of corporate governance, monitoring and recommending the management in respect of financial and business strategy and targets, monitoring public disclosures, as well as assessing the performance of the management whether they are in line with the Company's operating objectives.

The Company has also established risk management and internal control systems to ensure that the Company's assets are under protection, operating and governance measures are in place, business risks are properly managed and accounting records and financial statements are properly kept and maintained. The Audit Committee is responsible for reviewing the effectiveness of the Group's risk management and internal control systems with the assistance of the Group's Internal Audit Department.

The Company maintains a highly transparent governance mechanism by publishing information to shareholders and investors in a timely manner. We use several communication channels to ensure that the Company's shareholders are provided with ready, equal and timely access to information about the Company.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company was in compliance with all applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules during the Review Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Company, having made specific enquiry of all Directors, confirms that the Directors have complied with the required standards set out in the Model Code throughout the Review Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Review Period.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with the management, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including the review of the unaudited interim results of the Group for the Review Period.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (www.hkexnews.hk) and of the Company (www.yurun.com.hk). The 2016 interim report of the Company containing all the information required by Appendix 16 to the Listing Rules, as applicable, will be despatched to the shareholders of the Company and published on the websites of the Company and the Stock Exchange in due course.

By Order of the Board
Yu Zhangli
Chairman

Hong Kong, 26 August 2016

As at the date of this announcement, the executive directors of the Company are Yu Zhangli, Li Shibao, Sun Tiexin, Yang Linwei and Yao Guozhong; and the independent non-executive directors are Gao Hui, Chen Jianguo and Miao Yelian.